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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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C92-2271

[x] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 1992, or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

PROCESSED BY

Commission file number 0-18090

MAY 11 1992

CAERE CORPORATION

(Exact name of registrant as specified in its chart

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Delaware
(State or other jurisdiction of incorporation or organization)

94-2250509
(I.R.S. Employer Identification No.)

100 Cooper Court, Los Gatos, California, 95030
(Address of principal executive offices)

(408) 395-7000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports). and (2) has been subject to such filing requirements for the past 90 days.

Yes x No____

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock.

Class	Outstanding March 31, 1992
Common Stock $.001 par value	5,209,686

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CAERE CORPORATION
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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

CAERE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31 1992 (Unaudited)	December 31, 1991
ASSETS		
Cash and cash equivalents	$ 31,060	30,971
Receivables (Note B)	6,387	5,931
Other current assets (Note C)	4,729	4,395
Total current assets	42,176	41,297
Property and equipment, net (Note D)	2,904	2,635
Other assets	1,981	1,420
Total assets	$ 47,061	45,352
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accrued expenses and other payables	$ 4,390	4,282
Preferred stock, $.001 par value: authorized 2,000,000 shares; none issued or outstanding	-	-
Common stock, $.001 par value: authorized 15,000,000 shares; issued and outstanding 5,209,686 and 5,193,872 shares	5	5
Additional paid-in capital	28,983	28,901
Retained earnings	13,683	12,164
Total stockholders' equity	42,671	41,070
Total liabilities and stockholders' equity	$ 47,061	45,352

The accompanying notes are an integral part of the condensed consolidated financial statements.

CAERE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Net revenues	$ 9,342	8,240
Cost of revenues	2,978	2,602
	6,364	5,638
Operating expenses:		
Research and development	1,040	749
Selling, general and administrative	3,203	2,560
	4,243	3,309
Operating earnings	2,121	2,329
Interest income, net	301	437
Earnings before income taxes	2,422	2,766
Provision for income taxes	903	1,061
Net earnings	$ 1,519	1,705
Net earnings per common and common equivalent share (Note E)	$ 0.29	0.32
Shares used in per share calculation	5,293	5,268

The accompanying notes are an integral part of the condensed consolidated financial statements.

CAERE COKPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Cash flows provided by operations:		
Net earnings	$ 1,519	1,705
Items not requiring the current use of cash:		
Depreciation and amortization	302	176
Amortization of capitalized software development costs	101	64
Stock option compensation expense	2	6
Provision for sales returns and doubtful accounts	72	(81)
Changes in operating assets and liabilities:		
Receivables	(528)	(1,532)
Prepaid expenses and other current assets	(334)	(201)
Accrued expenses and other payables	108	1,221
Cash provided by operations	1,242	1,358
Cash flows used for investing activities:		
Capital expenditures	(473)	(171)
Capitalized software development costs	(195)	(90)
Other assets	(565)	(65)
Cash used by investing activities	(1,233)	(326)
Cash flows provided by financing activities:		
Proceeds from issuances of common stock, net	80	96
Net increase in cash and cash equivalents	89	1,128
Cash and cash equivalents, beginning of period	30,971	26,018
Cash and cash equivalents, end of period	$31,060	27,146
Supplemental disclosures:		
Cash paid for income taxes	$ 1,442	41

The accompanying notes are an integral part of the condensed consolidated financial statements.

CAERE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

A) Basis of Presentation

The accompanying unaudited condensed consolidated balance sheets, statements of earnings and statements of cash flows reflect all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary to present the financial position of the Company as of March 31, 1992, and the results of operations and cash flows for the periods indicated.

The accompanying unaudited condensed financial statements have been prepared in accordance with the instructions for Form 10Q and therefore certain information and footnote disclosure normally contained in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company filed audited financial statements with the Securities and Exchange Commission which included all information and footnotes necessary for a complete presentation of the Company's financial position, results of operations and cash flows for the years ended December 31, 1991, 1990 and 1989, in its report on Form 10K for the year ended December 31, 1991 ("the Form 10K"). It is suggested that these condensed financial statements be read in conjunction with the financial statements contained in the Company's Form 10K dated March 13, 1992. The results of operations for the interim periods ended March 31, 1992, are not necessarily indicative of the results to be expected for the full year.

B) Receivables

	March 31, 1992	December 31, 1991 (Audited)
	(In thousands)	
A summary of receivables follows:		
Trade accounts receivable	$ 6,822	6,219
Interest receivable	82	157
	6,904	6,376
Less allowance for returns and doubtful accounts	517	445
	$ 6,387	5,931

C) Other Current Assets

	March 31, 1992	December 31, 1991 (Audited)
	(In thousands)	
Other current assets comprise prepaid expenses and inventories. A summary of inventories follows:		
Raw materials	$ 2,143	1,852
Work in process	833	768
Finished goods	644	779
	$ 3,620	3,399

D) **Property and Equipment**

A summary of property and equipment follows:

	March 31, 1992	December 31, 1991 (Audited)
	(In thousands)	
Equipment	$ 5,562	5,250
Furniture and fixtures	821	726
Leasehold improvements	595	528
	6,978	6,504
Less accumulated depreciation and amortization	4,074	3,869
	$ 2,904	2,635

E) **Net Earnings Per Share**

Net earnings per common and common equivalent share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares consist of options to purchase common stock calculated using the treasury stock method. Fully diluted earnings per share for all periods presented were not materially different from primary earnings per share.

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Revenues

Net revenues increased 13% to approximately $9.3 million during the first quarter of 1992 from $8.2 million in the first quarter of 1991. The increase was due to net revenues for the OmniPage page recognition products increasing 23% to $7.2 million in 1992 from $5.8 million during the comparable quarter in 1991.

The increases in the OmniPage page recognition products net revenues resulted from increased demand across the product line with particularly strong unit sales of OmniPage Professional.

In addition, the Company introduced a new version of OmniPage, OmniPage Direct, during the first quarter of 1992. Introduced with the new HP ScanJet IIp flatbed greyscale scanner from Hewlett-Packard, OmniPage Direct can be accessed directly from within a personal computer application, allowing the user to insert scanned text directly into a document.

Business products net revenues for the older OCR/bar code products were approximately $2.2 million for the first quarter of 1992 compared to $2.4 million for the first quarter of 1991. The Company expects the net revenues for these products to be relatively flat for the year.

Gross Margins

Gross margins of 68% for the first quarter of 1992 were consistent with gross margins during the comparable quarter in 1991. The most significant factor affecting gross margins in the future will be changes in the product mix between the software-only OmniPage products and products that contain hardware components, such as the Typist and OCR and bar code products. The software-only products have significantly higher gross margins than products that consist of both hardware and software. The Company has experienced shifts in the product mix in the past and expects that such fluctuations may recur in the future.

Operating Expenses

Research and development (R&D) expenses increased 39% to $1,040,000 for the first quarter of 1992 compared to $749,000 for the first quarter in 1991. As a percentage of sales, R&D increased to 11% from 9%. The increases related primarily to additions to the development staff and contract developers for new product development, including OmniPage Direct, which was introduced and shipped during the quarter. The Company has other new products under development that it expects to introduce in 1992 and beyond. In addition the Company intends to invest in continued enhancements to the Company's current products. The Company expects R&D expense to increase in absolute dollars for the remainder of 1992.

Selling, general and administrative (SG&A) expenses increased approximately 25% to $3,203,000 for the first quarter of 1992 compared to $2,560,000 for the comparable quarter of 1991 and, as a percentage of sales, increased to 34% from 31%. The increases resulted primarily from increased promotional costs and commissions associated with the OmniPage products. The Company expects SG&A expense to increase in absolute dollars for the remainder of 1992.

Interest Income

The decrease in interest income was the result of lower interest rates earned on the Company's investments included in cash and cash equivalents.

Net Earnings

Net earnings decreased to $1,519,000 for the first quarter of 1992 compared to $1,705,000 for the first quarter of 1991 due to the increase in operating expenses and the decrease in interest income.

Certain Trends

The Company's future operating results may be affected by various uncertain trends and factors which are beyond the company's control. These include adverse changes in general economic conditions, rapid or unexpected changes in the technologies affecting optical character recognition, rising costs or the unavailability of needed components. The industry has become increasingly competitive, and accordingly, the Company's results may also be adversely affected by the actions of existing or future competitors, including the development of new technologies, the introduction of new products, and the reduction of prices by such competitors to gain or retain market share.

The Company's future earnings and stock price could be subject to significant volatility, particularly on a quarterly basis. The Company's revenues and earnings may be unpredictable due to the Company's shipment patterns. As is common in the software industry, the Company's experience has been that a disproportionately large percentage of shipments has occurred in the third month of each fiscal quarter and shipments tend to be concentrated in the latter half of that month. Because the Company's backlog early in a quarter is not generally large enough to assure that it will meet its revenue targets for any particular quarter, quarterly results may be difficult to predict until the end of the quarter. A shortfall in shipments at the end of any particular quarter may cause the results for that quarter to fall significantly short of anticipated levels. Due to analysts' expectations of continued growth, any such shortfall in earnings could have a very significant effect on the trading price of the Company's common stock in any given period.

As a result of the foregoing factors and other factors which may arise in the future, the market price of the Company's common stock may be subject to significant fluctuations over a short period of time. These fluctuations may be due to factors specific to the Company, to changes in analysts' earnings estimates or to factors affecting the computer industry or the securities markets in general.

Liquidity and Capital Resources

The Company's financial position remains strong, with working capital increasing to $37.8 million and no long-term debt. Cash and cash equivalents aggregated approximately $31.1 million at March 31, 1992. The Company believes that existing cash balances will be sufficient to meet its cash requirements for the foreseeable future.

EXHIBIT 11

CAERE CORPORATION

STATEMENT REGARDING COMPUTATION OF NET EARNINGS PER SHARE
(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Net earnings	$1,519,000	1,705,000
Weighted average shares outstanding during the period	5,199,231	5,162,970
Common stock equivalent shares using the treasury stock method	94,218	105,152
Common and common equivalent shares outstanding for purposes of calculating primary net earnings per share	5,293,449	5,268,122
Incremental shares to reflect full dilution	13,012	--
Total shares for purposes of calculating fully diluted net earnings per share	5,306,461	5,268,122
Primary net earnings per common and common equivalent share	$ 0.29	0.32
Fully diluted net earnings per common and common equivalent share	$ 0.29	0.32

PART II. OTHER INFORMATION

Item 6

Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 11 - Statement Regarding Computation of Net Earnings Per Share - page 10

(b) Reports on Form 8-K

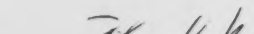
No reports on Form 8-K were filed by the Company during the period covered by this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAERE CORPORATION

Date: May 6, 1992



Blanche M. Sutter, Vice President Finance
and Chief Financial Officer

(Principal Financial and Accounting Officer
and Duly Authorized Officer)